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PENNSYLVANIA WATER & POWER COMPANY

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PART I**WRITTEN STATEMENT**

By order dated September 1, 1944 in Docket No. IT-5915, the Federal Power Commission instituted an investigation of the rates of Pennsylvania Water & Power Company (hereinafter sometimes "Holtwood"). Subsequently, on October 3, 1944, the Commission, by order, enlarged the scope of the investigation to include Susquehanna Transmission Company of Maryland (hereinafter sometimes "Susquehanna"), the wholly-owned subsidiary of Pennsylvania Water & Power Company.

Pursuant to the aforesaid orders, the staff of the Commission undertook an examination, among other things, of the accounts and records of Holtwood and Susquehanna. This report reflects the results of that examination.

Scope of Report

This report deals with the Companies' history, capitalization and plant investment. It includes a written statement which has been divided into three chapters as follows:

- I. Corporate and Financial History
- II. Early History of the Holtwood Project
- III. Plant Investment

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In addition to the written statement there are 39 schedules and 6 appendices. Schedule 1 is a consolidated balance sheet of Holtwood and Susquehanna at December 31, 1945 per books and as adjusted by the examiners to reflect adjustments and transfers from the companies' plant accounts. Schedule 2 shows the details of the adjusted plant balances. Electric plant in service as reclassified by Holtwood in its original cost studies is reconciled with the

original cost determined by the F. P. C. examiners on Schedule 3. The remaining schedules present the details of certain plant accounts and list and explain the examiners' adjusting entries. All schedules have been prepared on a consolidated basis. The appendices consist of balance sheets and statements of cash receipts and disbursements for predecessor companies.

Corporate and Financial History

Incorporation and Purposes

Pennsylvania Water & Power Company was incorporated January 13, 1910 in the State of Pennsylvania under the provisions of the Act of April 27, 1909 as a reorganization of McCall Ferry Power Company, which had in turn been formed by the merger on April 14, 1905 of Hillside Water & Power Company and Susquehanna Water & Power Company. Each of the latter companies had been incorporated in Pennsylvania on September 2, 1902 for the purpose of the storage and transportation of water and water power for commercial and manufacturing purposes and the development by [22580] (page 3) the use of the same, of electric current and power. Pennsylvania Water & Power Company derived its original franchise privileges from these early charters. The corporation has perpetual life.

Capitalization

Since its acquisition of the properties and franchises of McCall Ferry Power Company on January 13, 1910, in exchange for common stock and bonds, Pennsylvania Water & Power Company has been financed by additional issues of common and preferred stock and several bond issues, which are described in the following paragraphs:

Capital Stock: The various capital stock issues of the company are listed in the table below:

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	Year	Shares Issued		Shares Outstanding December 31, 1945	Par or Stated Value
		No. of Shares	Par or Stated Value	No. of Shares	Par or Stated Value
Capital Stock—\$100 Par					
Authorized—					
85,000 shares (1910)					
50,000 shares (1923)					
Initial Issue—Note (a)	1910	84,950	\$ 8,495,000)	Exchanged for No Par	
Issued for cash at 100	1923	12,743	1,274,300)	Stock in 1927—Four	
Issued for cash at					
112½ (b)	1924	9,769	976,900)	New for One Old	
		<u>107,462</u>	<u>\$10,746,200</u>		
Common Stock—No Par					
Authorized—					
540,000 shares (1927)					
Exchanged for Par					
Stock (b)	1927	429,848	\$10,868,312	429,848	\$10,868,312
\$5 Cumulative Preferred					
Stock—No Par (c)					
Authorized—					
100,000 shares (1932)					
Issued for cash at 97½	1933	3,829	\$ 373,327		
Issued for cash at 99½	1935	17,664	1,757,568		
		<u>21,493</u>	<u>\$ 2,130,895</u>	<u>21,493</u>	<u>\$ 2,130,895</u>

(a) Of the total initial issue of \$8,495,000 par value of capital stock, \$4,995,000 was given in exchange for an equal principal amount of McCall Ferry Power Company bonds on which \$4,495,500 had been paid in (at 90). The remaining [22581] (page 4) \$3,500,000 par value of stock was issued as a bonus in marketing \$4,170,000 of Pennsylvania Water & Power Company bonds.

(b) The premium of \$122,112.50 on the par value capital stock issued in 1924 was carried in a separate account for premium on capital stock until the exchange for no par stock in 1927 when the amount was transferred to the capital stock account.

(c) The preferred stock is redeemable at \$110. per share plus accrued dividends, and is entitled to \$100. per share plus accrued dividends in any liquidation.

The initial issue of capital stock was held in a voting trust from the time of its issue until November 1, 1912 when the trust expired by its own terms.

Bonds Issued: A summary of the Company's several bond issues is given below:

	Year	Issued Amount	Outstanding Dec. 31, 1945
First Mtge. 5% S. F. Bonds, due 1940			
Initial Issue (at 90)			
Note (a)	1910	\$ 7,500,000	
Issued at various prices (85 to 95)	1911-23	5,000,000	
		<hr/>	
		12,500,000	
		<hr/>	
First Refunding Mtge. 5½%			
Bonds, due 1953			
Issued at 91-3/8	1923	2,000,000	
Issued at 96	1924	1,000,000	
		<hr/>	
		3,000,000	
		<hr/>	
First Mtge. 6% S. F. Bonds, due 1954 (b)			
Issued at 95	1924	2,750,000	
		<hr/>	
First Refunding Mtge. 4½% Bonds, due 1968 (c)			
Issued at 96	1928	6,000,000	
Issued at 88½	1930	1,750,000	
Issued at 93	1931	3,500,000	
		<hr/>	
		11,250,000	
		<hr/>	

	Year	Issued Amount	Outstanding Dec. 31, 1945
Refunding Mtge. and Collateral Trust Bonds 3¼% due 1964 (d)			
Issued at 102	1939	10,900,000	10,383,000
Refunding Mtge. and Collateral Trust Bonds 3¼% due 1970 (e)			
Issued at 103	1940	\$10,962,000	10,450,000

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- (a) All bonds were sold for cash with the exception of the initial issue of \$7,500,000 of 5% bonds due 1940 of which \$3,330,000 were issued in exchange for an equal principal amount of McCall Ferry Power Company bonds (sold at 90) and the remaining \$4,170,000 were sold for cash at 90 with a 50% common stock bonus.
- (b) The First Mortgage 6% Sinking Fund Bonds due 1954 were issued in 1924 by Holtwood Power Company, a wholly-owned subsidiary, and were assumed by the parent company in 1927 when the subsidiary was merged.
- (c) Proceeds from the sale of \$6,000,000 of 4½% bonds in 1928 were used to redeem \$3,000,000 of 5½% bonds due 1953 and \$2,750,000 of 6% bonds due 1954.
- (d) Proceeds from the sale of the 3¼% bonds due 1964 were used to redeem \$10,903,000 of 5% bonds due 1940.
- (e) Proceeds from the sale of the 3¼% bonds due 1970 were used to redeem \$10,962,000 of 4½% bonds due 1968.

The indenture for the two series of $3\frac{1}{4}\%$ bonds now outstanding provide for their partial retirement through purchase or redemption by means of annual sinking fund payments of approximately \$109,000 for each series. Specified premiums are payable for sinking fund redemptions beginning with 5% for the 1964 bonds and 6% for the 1970 bonds declining to $3/8\%$ near the maturity of the issues. In addition the bonds of either series may be retired in whole or in part at any time on 30 days notice upon the payment of a declining rate of premium which at the present time stands at $5\frac{1}{2}\%$ and $6\frac{1}{2}\%$ for the 1964 and 1970 bonds, respectively, reducing to $3/8\%$ for both issues near maturity.

Directors and Officers

The officers and directors of the Company as of April 6, 1946 were as follows:

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Officers

President	J. A. Walls
Executive Vice President	J. L. Rintoul
Vice President	G. W. Spaulding
Treasurer	J. U. Diehl
Secretary and Asst. Treas.	W. H. Eichhorn, Jr.
Assistant Secretary	R. L. Bortner

Directors

P. S. Bush*	M. E. Noyes	G. W. Spaulding
G. T. Hambright	J. L. Rintoul	L. G. Tighe
E. B. Leisenring	T. E. Seelye	J. A. Walls
D. E. Williams, Jr.		J. S. Young

* Chairman of the Board.

Associated Companies

As at December 31, 1945, Pennsylvania Water & Power Company owned the entire issued capital stock and bonds of Susquehanna Transmission Company of Maryland and one-third of the capital stock of Safe Harbor Water Power Corporation. It also owned the entire issued stock of two inactive subsidiaries, Holtwood Coal Company and Susquehanna Canal and Power Company.

Susquehanna Transmission Company of Maryland: This company was organized by Pennsylvania Water & Power Company on April 19, 1910 under the laws of the State of Maryland by the consolidation of Susquehanna Pole Line Company of Harford County and Susquehanna Pole Line Company of Baltimore County, two companies which had been incorporated by McCall Ferry Power Company in 1907 in connection with the acquisition of rights of way for the Baltimore transmission line. Among other things, it was authorized in its charter to erect and operate pole lines for the transmission of electric current, and substations for raising or lowering the voltage of any electricity received. It has perpetual life.

[22584] (page 7)

The company owns the Maryland section of all transmission lines operated by its parent company. This construction was financed by the parent company in return for securities of the subsidiary. The transmission company has no net income and no surplus. All operating expenses are paid by the parent company which also waives all interest due on the subsidiary's outstanding bonds. The company is consolidated with its parent company in the statements appearing in this report.

Safe Harbor Water Power Corporation: This company was incorporated under the laws of Pennsylvania on January 6, 1930. It owns and operates a hydroelectric plant

on the Susquehanna River about eight miles above Holtwood, Pa. Pennsylvania Water & Power Company owns one-half of its Voting Class B stock for which it paid \$3,000,000 to the affiliate. The remainder of the Class B stock and all of the Non-Voting Class A stock, representing two-thirds of the entire capital stock, are owned by Consolidated Gas Electric Light and Power Company of Baltimore.

Mergers of Subsidiary Companies

Holtwood Power Company: In December 1927, Pennsylvania Water & Power Company acquired all the franchises and properties of Holtwood Power Company, a wholly-owned subsidiary, in consideration for the delivery to that company of all its capital stock and the assumption by the parent company of the subsidiary's indebtedness. The subsidiary had been organized on August 9, 1924 to own and operate the steam-electric plant completed on August 15, 1925. The entire electric output of the plant was sold to the parent company.

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Transmission Companies: In December 1939 Pennsylvania Water & Power Company acquired all the franchises and properties of Susquehanna Transmission Company of Pennsylvania and Pennsylvania Transmission Company, wholly-owned subsidiaries, in consideration for the assumption of the subsidiaries' liabilities and the cancellation of all their outstanding capital stock and bonds. Susquehanna Transmission Company of Pennsylvania was organized by the parent company on April 26, 1910 to own the Pennsylvania section of the Baltimore transmission line. Pennsylvania Transmission Company was organized on April 1, 1932 to own the Pennsylvania sections of the Safe Harbor-Westport and Safe Harbor-Riverside trans-

mission lines. The construction of the transmission lines was entirely financed by the parent company.

Other Subsidiary Companies

In addition to its utility subsidiaries, Pennsylvania Water & Power Company during its history organized two other companies which operated briefly. These were the Baltimore Electro Alloys Company, organized in 1915 for the manufacture of electric furnace products, chiefly ferrosilicon, and Holtwood Coal Company, formed in 1920 to develop a river coal market. The Electro Alloys Company discontinued its manufacturing operations in 1919, and after several years of inactivity was liquidated in 1931. Holtwood Coal Company was actively engaged in marketing river coal from 1921 to 1923 and later purchased coal for the parent company's steam plant. It is now inactive.

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Early History of the Holtwood Project

Promotion

The project for a hydroelectric development at McCall Ferry on the Susquehanna River was originated by Carg T. Hutchinson, an electrical engineer, who began the acquisition of properties and riparian rights on the river about 1901. His early acquisitions included an option on the properties of the York Furnace Power Company, a partnership which controlled the properties necessary for a development originally considered at York Furnace. These properties became the nucleus of the project which was finally located a few miles downstream at McCall Ferry.

In order to secure the right to build his dam, Hutchinson on September 2, 1902 formed two water power companies, Hillside Water and Power Company and Susquehanna Water and Power Company, located on opposite sides of the Susquehanna River in Lower Chanceford Township, York County and in Martic Township, Lancaster.

County, Pennsylvania. His efforts to secure absolute control of the river above McCall Ferry were blocked by the Harlow-McGaw interests who were primarily interested in a development lower down on the river but owned an old canal which extended along the west bank of the river from Havre de Grace, Maryland, to Wrightsville, Pennsylvania. These canal rights were absolutely essential to Hutchinson's project. Failing in an attempt to have the canal charter rescinded, Hutchinson on April 14, 1903 entered into an agreement with the Harlow-McGaw interests under which he would be able to secure the necessary canal rights to build his dam in return for certain cash payments, some property transfers [22587] (page 10) on the lower river and the withdrawal of his interference at all other places on the river. Originally for six months, this agreement was extended to May 15, 1905. The agreement although never carried out enabled Hutchinson to go ahead with his project.

Formation of Initial Syndicate

In February or March 1905 a syndicate was formed for the financing of the McCall Ferry project, managed by Henry F. Dimock (Hutchinson's father-in-law), S. R. Bertron (of Bertron, Storrs and Griscom, Bankers), and Charles F. Barney (President of Knickerbocker Trust Company), and a combined prospectus and underwriting agreement was issued dated March 1, 1905. This agreement proposed an initial development of 50,000 horsepower at McCall Ferry to be financed by the sale of \$8,000,000 of 5% thirty-year bonds at 90 with a 50% stock bonus consisting of \$4,000,000 of 5% cumulative preferred stock. The agreement was to become effective when subscriptions for \$6,000,000 of bonds had been received. \$4,000,000 of common stock was also proposed to be issued.

The chief financial interests behind the original underwriting were Bertron, Storrs & Griscom and Lee, Higginson & Company.

Harvey Fisk & Sons Enters Syndicate

In order to secure sufficient subscriptions, the original syndicate found it necessary to enlist the aid of Harvey Fisk & Sons of New York City. The exact nature of the arrangements made with the latter firm are obscure because no agreement has been found, if any existed, covering their arrangements with the original syndicate. However, Harvey Fisk & Sons apparently became Syndicate Managers and Bankers and, on March 25, 1905 issued a Bond and Stock Purchase [22588] (page 11) Agreement between themselves as "Bankers" and the subscribers, severally, proposing the organization of a company to develop the McCall Ferry site, capitalized substantially as in the original plan but calling for a 45% Preferred Stock Bonus instead of a 50% bonus with the sale of the bonds, and for the present issuance of the entire \$5,000,000 of Common Stock instead of \$4,000,000 as proposed earlier. Harvey Fisk & Sons stated in the Bond and Stock Purchase Agreement that they "have been requested and are willing to aid in financing the said plan to the extent of taking agreements from the Subscribers for the purchase of bonds and preferred stock of the Power Company, of acquiring the bonds and stocks for delivery under such purchase, and of making or procuring the loans hereinafter mentioned." It was also stated in the agreement that the Bankers do not "assume any fiduciary relation of any kind, or any obligation to cause the plan aforesaid to be undertaken or carried out." Harvey Fisk & Sons performed the usual functions of a syndicate manager and banker. The firm subscribed to \$100,000 principal amount of bonds.

Subscribers had the option of deferring payment of their subscriptions for at least three years after the initial installment of 20% had been paid, to be financed by loans to be secured by the Bankers, and the Bankers had the option, at any time before final delivery, to repurchase from Subscribers all or any part of their bonds at 90. This

option would permit the Bankers to sell the bonds at a profit if the opportunity arose before final delivery of the securities.

[22589] (page 12)

The subscriptions secured by the original syndicate (about half of the total) were apparently kept in force under the new arrangement and appear to have received the full 50% preferred stock bonus called for under the earlier plan.

Incorporation of McCall Ferry Power Company

On April 14, 1905 the two water power companies which Hutchinson had formed in 1902, The Hillside Water and Power Company and Susquehanna Water and Power Company, were merged to form the McCall Ferry Power Company by an exchange of one share of stock in the new company for each share of the outstanding stock of the old companies (5 shares each). The new company had the same incorporators, stockholders, directors, and officers as its predecessor companies, all nominees of Cary T. Hutchinson and his associates.

The initial capitalization of McCall Ferry Power Company was 10 shares, par value \$100 each, but was increased to the following on June 13, 1905:—

First Mortgage 5%, 30 Year Bonds, dated

June 15, 1905

\$10,000,000

5% Cumulative Preferred Stock, \$100

Par Value

5,000,000

Common Stock, \$100 Par Value

5,000,000

Management of McCall Ferry Power Company

The management of the company was in the hands of its officers and directors, with an Executive Committee meeting frequently and performing most of the functions of the directors. They had the assistance of a Board of Advisory Engineers appointed by the directors.

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The initial members of the Executive Committee and their business or other connections are given below:

H. F. Dimock,	Hutchinson's father-in-law
C. A. Coffin	President of General Electric Co.
Gardiner M. Lane	Lee, Higginson & Company, Bankers
William M. Barnum	Harvey Fisk & Sons, Bankers
W. Barclay Parsons	Consulting Engineer

S. R. Bertron of Bertron, Storrs & Griscom replaced Gardiner M. Lane on the Committee in September 1905.

It is apparent from the above that all interests shared in the direction of the enterprise. The promoters were represented by H. F. Dimock, the original syndicate by Gardiner M. Lane (later S. R. Bertron), and Harvey Fisk & Sons by William M. Barnum. C. A. Coffin was identified with the original syndicate. W. Barclay Parsons was a member of the Board of Advisory Engineers. The examiners found no evidence that any one interest was primarily responsible for the management of the project or dominated it to the exclusion of the others. The active day by day management of the Company, including supervision of the construction work, was exercised by its officers.

The principal officers during the period of active construction were as follows:

President	H. F. Dimock
Vice President	J. A. Keppelman (later J. W. Kirkland)
Treasurer	W. H. Barnum
Secretary	Harold Pender
Chief Engineer	Cary T. Hutchinson

The company's stock was held in a voting trust formed under the terms of a stock agreement dated January 20, 1906 with H. F. Dimock, William M. Barnum and S. R. Bertron as the voting committee.

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Acquisition of the Harlow-McGaw Properties

The distribution of the plans for the McCall Ferry project caused the Harlow-McGaw interests to protest to Harvey, Fisk & Sons that the proposal exceeded the limits intended by their agreement of April 14, 1903 and conflicted with their own plans for the development of the entire river from tidewater to Columbia by means of a series of five dams. Negotiations between the parties resulted in two agreements dated April 27, 1905 whereby Harlow-McGaw agreed to sell their entire interest along the river from Columbia to Havre de Grace to Harvey Fisk & Sons and S. R. Bertron for \$200,000 in cash and \$250,000 principal amount of bonds and \$100,000 par value of common stock of McCall Ferry Power Company. These agreements superseded the April 14, 1903 agreement between Harlow-McGaw and Hutchinson and gave the McCall interests control of the vital west bank canal from tidewater to Wrightsville. The agreements were subject to a prior option for the river properties which Harlow-McGaw had granted to Charles D. Pullen who had also been attempting a consolidation of the conflicting interests along the river. The Pullen options were purchased by Bertron, Storrs and Griscom on April 29, 1905 for \$10,000 in cash and the promise to deliver \$15,000 par value of common stock of McCall Ferry Power Company.

Incorporation of Susquehanna Contracting Company

To provide a vehicle for the refinancing of the project, Susquehanna Contracting Company was organized in New York on June 12, 1905 with a capital of \$500 divided into five shares of \$100 each. The original directors, stockholders and officers of the company were as follows:

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<i>Name and Position Held</i>	<i>Shares Held</i>
A. P. Bartlett, President and Director	3 shares
Ross A. Mackey, Secy-Treas. and Director	1 share
James E. Hopkins, Director	1 share

Shortly after its formation Harvey Fisk & Sons transferred to the new corporation the firm's entire rights and obligations under the Bond and Stock Purchase Agreement, but retained the right to repurchase the bonds from the subscribers at 90. The agreements for the purchase of the Harlow-McGaw properties and the Pullen options were also assigned to the Contracting Company.

Transfer of Properties to McCall Ferry Power Company.

On June 13th, the day following its incorporation, Susquehanna Contracting Company entered into an agreement with McCall Ferry Power Company whereby it agreed to transfer to the latter company all the properties and options to be acquired from Cary T. Hutchinson and associates, Harlow-McGaw, and Charles Pullen and to pay \$6,400,000 in cash within three years as required by McCall Company, in exchange for \$8,483,000 principal amount of 5% bonds, \$4,116,500 par value of preferred stock and \$4,999,000 par value of common stock of McCall Ferry Power Company. It was further agreed that the Contracting Company would refund to McCall Company the excess of bond interest received from McCall over interest and commissions paid by the Contracting Company in obtaining loans to finance the project.

Acquisition of Cary T. Hutchinson Properties.

On the following day, June 14, 1905, the Contracting Company entered into a contract whereby Cary T. Hutchinson was to transfer to the Contracting Company all property rights owned by him [22593] (page 16) or his associates on the Susquehanna River between Columbia and Havre de Grace, in exchange for \$750,000 in cash and

\$400,000 par value of preferred stock and \$4,884,000 par value of common stock of McCall Ferry Power Company.

Distribution of McCall Company Securities

The execution of the above contracts left McCall Company in possession of most of the lands and riparian rights necessary for the construction of its project, and the right to call on Susquehanna Contracting Company for \$6,400,000 cash for construction costs. The distribution to be made of McCall Company's securities on the basis of the various contracts already signed was as follows:

	Shares		Principal
	Common	Preferred	Amount
	Stock	Stock	Bonds
Issued in exchange for Cary T. Hutchinson's stock in merged predecessor companies	10		
Issued to Susquehanna Contracting Company in exchange for properties—			
Cary T. Hutchinson	48,840	4,000	
Harlow-McGaw Interests	1,000		\$ 250,000
Charles D. Pullen	150		
Retained for Bond Subscriptions		37,165	8,233,000
	<hr/> 50,000	<hr/> 41,165	<hr/> \$8,483,000

Hutchinson apparently did not retain all the securities due him under his agreement with the Contracting Company but the circumstances of the ultimate distribution of the shares are not known definitely since none of the existing agreements cover this phase of the transaction. The common stock was held in a voting trust and the trustee's records are not available.

/ [22594] (page 17)

The common stock certificate book shows two certificates issued to the Contracting Company in August 1905; one for 18,840 shares and the other for 30,000 shares. No further change took place in these certificates until 1909 when 1,000 shares were issued to Thomas Newhall and another 1,000 shares to Lorenzo Semple in May and July respectively from the certificate for 18,840 shares. Photostatic copies of Bertron, Storrs & Griscom's investment records secured by the Company show the receipt of 12,462½ shares of common stock of which 5,000 shares were later transferred to Lee, Higginson & Company. Presumably, these represent part of the shares due Hutchinson under the contract of June 14, 1905. The distribution of the preferred stock due Hutchinson is similarly obscure.

Sale of Properties Below the Tailrace.

The properties acquired from the Harlow-McGaw interests were equally useful for the upper river development which was later made at Safe Harbor and the lower development now existing at Conowingo, since the Susquehanna and Tidewater canal extended along the river from Havre de Grace to Wrightsville. The McCall Company actively considered a development near Conowingo to be undertaken after the completion of the dam at McCall Ferry and made some studies to that end. In drawing up the agreement for the relocation of the Columbia and Port Deposit Railroad, provision was made for the eventual relocation of the railroad when the lower dam was built. In addition to the west bank canal, the McCall Company owned a large part of the additional properties which would be required for the Conowingo dam. Most of these had been [22595] (page 18) acquired from Harlow-McGaw.

In July 1906, Susquehanna Power Company, a competing interest on the lower river with which James H. Harlow had become associated, instituted condemnation proceedings against that portion of McCall Company's properties on the lower river lying in Maryland which

would be required by a dam Susquehanna proposed to erect to elevation 65, a half mile above Shure's Landing near Conowingo. This dam would back water almost to the Pennsylvania State line in flood time. McCall Company fought the suit, complaining that it interfered with their own plans at Conowingo and would render valueless the remainder of their property rights between the Pennsylvania State line and the McCall Ferry tailrace. The case was decided against the McCall Company in the lower courts, but before a final decision had been handed down on an appeal, a consolidation of all competing interests on the lower river had been effected through negotiations undertaken by Bertron, Storrs & Griscom who had in the meantime secretly secured control of a third competitor for the lower river rights, Susquehanna Electric Power Company. The consolidation was accomplished by an agreement dated February 20, 1908, modified on June 30, 1908, whereby the competing interests were to transfer their holdings on the river from tidewater to elevation 103 to Susquehanna Power Company and its subsidiary Sowego Water and Power Company, and in return were to receive General Mortgage 5% bonds and the entire outstanding capital stock of Susquehanna Power Company in proportion to the amount of the fall in the river between elevation 12 and elevation 103 which each interest was deemed to control, as follows:

[22596] (page 19)

		Shares Stock	Bonds
McCall Ferry Power Company	38/91	1,670	\$ 760,000
Susquehanna Power Company	30/91	1,319	600,000
Susquehanna Electric Power Company	23/91	1,011	460,000
		<hr/> 4,000	<hr/> \$1,820,000

The McCall Company's share was based on the fall in the river between their tailrace (elevation 103) and the Pennsylvania State line (elevation 65). None of these properties had been included in the condemnation proceedings.

The entire capital stock of Susquehanna Power Company was to be exchanged for an equal number of shares of a new holding company to be formed under the name of Susquehanna Properties Company. After the deduction of a portion of the securities for legal fees, etc., McCall Company received 1,500 shares of capital stock of Susquehanna Properties Company and \$703,000 principal amount of the General Mortgage 5% bonds of Susquehanna Power Company.

Financing of the McCall Ferry Project

The construction of the project was financed through Susquehanna Contracting Company with funds secured by payments received on bond subscriptions and from loans secured from Knickerbocker Trust Company upon the pledge of deferred bond purchase agreements. A total of \$8,075,000 principal amount of bonds was subscribed, divided into \$6,180,000 of deferred subscriptions and \$1,895,000 of non-deferred subscriptions. This provided total funds of \$7,267,500 of which \$2,817,900 was paid in on subscriptions and \$4,449,600 was borrowed from Knickerbocker Trust Company. An additional \$250,000 principal amount of bonds was issued to Harlow-McGaw in part payment for properties acquired.

[22597] (page 20)

A \$400,000 loan was secured by Contracting Company on October 28, 1908 from four of the principal syndicate participants, (\$100,000 each from Harvey Fisk & Sons, Lee, Higginson & Company, Bertron, Storrs & Griscom and C. A. Coffin) upon pledge of \$102,000 principal amount of McCall Company bonds, a \$25,000 mortgage of the Conowingo Land Company, and the McCall Company's equity in

a \$250,000 railroad relocation deposit. The Contracting Company had only \$158,000 of bonds left from the original financing but acquired \$544,000 additional from McCall Company and the right to pledge the railroad relocation deposit, under two agreements dated October 20, 1908 whereby the Contracting Company cancelled all indebtedness due from McCall Company (totalling \$566,750) and agreed to pay that company \$62,000 in cash and transfer certain additional property rights which had cost the Contracting Company \$55,853.00. The indebtedness cancelled consisted of \$130,000 cash advanced to McCall Company against its note and \$436,750 due on open account for unpaid bond interest.

Construction Activities

Upon the advice of its Board of Advisory Engineers, McCall Company undertook to construct the dam itself. The Executive Committee employed Hugh T. Cooper (who had resigned from the Board of Advisory Engineers to make a proposition) as Hydraulic Engineer and Manager of Construction and employed Sanderson & Porter as Superintendent of Electrical Construction. Clearing of the site for the dam started on October 24, 1905, but actual construction did not get under way until 1906.

[22598] (page 21)

The McCall Company agreed to relocate the existing single track line of the Columbia and Port Deposit Railway Company on the East Bank of the river by constructing a new double track roadbed and a single track. The railroad was to pay McCall Company \$200,000 when it made use of the roadbed for a second track. McCall Company provided a cash deposit of \$250,000 with the Knickerbocker Trust Company as a bond for faithful performance of its contract.

H. S. Kerbaugh, Incorporated, was employed to do the railroad relocation work for a lump sum of \$1,250,000. Other large contracts were executed in 1907 with I. P. Morris

Company for turbines and with General Electric Company for generators and switchboards.

It had originally been estimated that construction might be completed and the plant in operation early in 1908. Delays occurred, however, and by May 1, 1907 it was estimated that the first unit might be in operation by June 1, 1908 with all units installed by January 1, 1909.

Financing Difficulties

The original plans for financing the McCall project based on a 155 foot dam with 50,000 horsepower installed plus an auxiliary steam plant became inadequate almost immediately, for on August 8, 1905 the Executive Committee called for bids on a 185 foot dam, and on June 19, 1906 officially adopted a height of 165 feet, either of which would require more funds than had been provided. Although the need for additional funds was recognized, no definite plans were prepared for securing any. On June 5, 1907 when it was apparent that the available cash could not last beyond the Fall the Executive Committee authorized [22599] (page 22) the sale of the Company's treasury bonds at "not less than 90 per cent of its face value with each bond to be given fifty (50%) of its face value in preferred stock." Some preliminary discussions occurred at this time of an additional underwriting proposed for the Fall but no actual underwriting resulted.

Suspension of Work

On November 1, 1907 all construction work on the project and on the machinery contracts was halted except for maintenance and cleaning up work and the placing of a small amount of concrete necessary to protect the existing plant. The suspension was primarily due to the company's failure to provide adequate financing to complete the project although the immediate cause may have been the closing of the Knickerbocker Trust Company on October 21, 1907. This closing temporarily embarrassed the Company

for, although it had no current funds on deposit there, a balance of approximately \$345,000 was still due under the loan arrangement with that company. However, no request had been made to the Trust Company for the payment of the balance due, and by December 7, the Receivers for the Trust Company had taken steps to complete the loan originally agreed upon. McCall Company also had available for call at this time, the balance of \$164,700 due on the non-deferred bond subscriptions. The sum of these amounts, however, was totally inadequate for the completion of the work and although received on January 8, 1908 the work suspension was not lifted. Construction work was not thereafter resumed, except for some excavation of the tailrace, until the project was reopened by the Receiver for the McCall Company in the Fall of 1909.

[22600] (page 23)

A skeleton organization was maintained throughout the period of suspension until November 1, 1908 when all employees were discharged except for a few men to care for the property at McCall Ferry and a few administrative employees in New York.

Formation of the Bondholders' Committee

In anticipation of the default on the McCall Company bond interest payment due on December 15, 1908, the leading syndicate participants, Harvey Fisk & Sons, Lee, Higginson & Company, Bertron, Storrs and Griscom, H. F. Dimock, and C. A. Coffin, formed a bondholders' committee on December 7, 1908, consisting of William M. Barnum, A. C. Bedford, S. R. Bertron, Charles A. Coffin, and Gardiner M. Lane, who resigned from their positions as directors of the McCall Company and invited the deposit of McCall Company bonds and preferred stock under the terms of a preliminary agreement dated December 7, 1908.

The committee investigated several reorganization plans and finally adopted one submitted by J. E. Aldred,

President of Shawinigan Water and Power Company, which was embodied in a "Memorandum of Understanding" dated April 24, 1907 between Aldred and the Committee. Under the terms of this agreement a new company was to be formed (or the old one recapitalized) with a total capitalization consisting of \$8,500,000 par value of capital stock and \$12,500,000 principal amount of First Mortgage 30 year 5% Bonds. The \$8,325,000 principal amount of McCall Company bonds outstanding were to be exchanged for 40% of new bonds (\$3,330,000) and 60% of new stock (\$4,995,000). An additional \$4,000,000 of bonds and \$3,500,000 [22601] (page 24) of stock were to be used for construction and other corporate purposes. It was agreed that Mr. Aldred will use his best efforts to sell \$4,170,000 of new bonds at 90% of their par value, * * * and the said \$3,500,000 of stock shall go to him for use in connection with the sale of such bonds, or otherwise as he may determine." All stock was to be placed in a voting trust for three years from November 1, 1909, two of the trustees to be nominated by Aldred and one by the Committee.

A voting trust was considered necessary to protect the new interests, who would own less than 50% of the stock, by giving them stock control of the Company until the project was completed and in successful operation.

A "Plan and Agreement" was issued by the Committee on May 28, 1909 with substantially the same financial provisions as were contained in the "Memorandum of Understanding" and became effective July 1, 1909.

Receivership and Resumption of Construction

Foreclosure proceedings were brought against McCall Ferry Power Company on July 13, 1909 on behalf of the depositing bondholders because of the default on the bond interest due December 15, 1908. The McCall Company admitted the allegations of the bill of complaint and on July 17 J. E. Aldred was appointed Receiver. In accordance with the Plan and Agreement, Aldred made arrangements to reopen the project. On August 16, 1909 The Empire

Engineering Corporation was employed for a fee of \$60,000 to complete the hydraulic construction which Cooper had originally undertaken and been paid for. Empire [22602] (page 25) immediately started to get the project in shape for renewed construction after its long shut down. No substantial amount of work was done until September, but construction thereafter continued first during the receivership and later under the direction of Pennsylvania Water & Power Company, until the plant was completed.

Financing of Construction

It had originally been planned that construction work would be carried on during the receivership with funds advanced by a new Syndicate against Receiver's Certificates which would constitute a first lien on the property. On legal advice that such a lien would not rank ahead of non-assenting bonds and would give no security beyond that which could be given by the Committee itself, it was decided that the Syndicate would make the required advances against notes to be issued by the Committee, secured by the deposited McCall Company bonds. This plan would obviate any trouble or delay involved in applications to the Court.

The Committee obtained loans of \$1,100,000 from Montreal Trust Company and the Bank of Scotland who were acting on behalf of the Syndicate participants. Of this amount \$450,000 was advanced to Aldred up to December 31, 1909. The balance was used to buy the \$400,000 outstanding note payable of Susquehanna Contracting Company held by the old McCall Company syndicate members, to settle outstanding obligations of McCall Company, and to pay the Committee's own expenses.

Because the use of Receiver's Certificates was discarded, Aldred in submitting a report of his activities to the court and to Pennsylvania Water & Power Company and the Bondholder's Committee, [22603] (page 26) segregated his expenditures in connection with construction, acquisition of rights of way and purchase of undeposited Mc-

Call Company securities, from purely maintenance expenditures which he classified as receivership expenses. This was undoubtedly done because of his failure to request Court approval for the issue of Receiver's Certificates. This segregation was not maintained on the Receiver's books.

Aldred's expenditures were financed entirely from funds received from the McCall Ferry Power Company and Committee advances. He used none of his personal funds for this purpose and incurred no liabilities without the backing of the Committee. Most of the larger contracts made during this period were either signed by Aldred as Receiver, or provision was made for his release from personal liability through assignment to the Bondholders' Committee or the new company. Aldred received a fee of \$7,000 for his services during this period.

Sale of McCall Ferry Power Company Properties

The property of McCall Company was sold at public auction on December 7, 1909 for \$2,000,000 to William M. Barnum acting for the Bondholders' Committee. The Court ordered the distribution of the proceeds pro rata to the bondholders. This was accomplished by cancelling the past due interest coupons and stamping the McCall Company bonds with the proportion of the sale price and Receiver's funds applicable to each. The transfer of the properties to Pennsylvania Water & Power Company did not take place until January 13, 1910.

Underwriting of Pennsylvania Water & Power Company Bonds

Bondholders of McCall Company subscribed to \$500,000 principal amount of the total amount of \$4,170,000 of bonds which Aldred had undertaken to sell. One-half of the balance, or \$1,835,000, was underwritten [22604] (page 27) by a syndicate formed in England by Kitcat & Aitken whom Aldred had interested in the proposition. Subscriptions for the remaining \$1,835,000 of bonds were secured, mainly

in Canada, by Aldred and two associates, E. R. Wood, Vice President of the Dominion Securities Corporation of Toronto, and H. S. Holt, President of Montreal Light, Heat & Power Company.

The entire \$4,170,000 principal amount of bonds was sold at 90. With these bonds went a 50% stock bonus totaling \$2,085,000 par value of capital stock, leaving \$1,415,000 par value remaining of the original total of \$3,500,000 placed at Aldred's disposal. These were divided among the chief participants in the underwriting as a special bonus for carrying out the refinancing as follows:

J. E. Aldred	\$ 655,000
Kitcat & Aitken	457,500
E. R. Wood	152,500
H. S. Holt	150,000
Total	<hr/> \$1,415,000 <hr/>

Aldred retained a proportionately greater amount of the capital stock than he allotted to his associates, presumably in recognition of his leadership in the financing operations. The "Memorandum of Understanding" had placed no restriction on Aldred's distribution of these shares and he had undertaken no obligation therein except to sell the required amount of bonds. With the completion of the financing Aldred had completed his part of the bargain and the capital stock was his unconditionally.

Organization of Pennsylvania Water & Power Company

Pennsylvania Water & Power Company was organized by the members of the Bondholders' Committee with an authorized capital stock [22605] (page 28) of \$8,500,000 at an organization meeting held January 13, 1910. The directors of the new company immediately authorized the issuance to the Committee of \$7,580,000 principal amount of 5% bonds and \$8,495,000 par value of capital stock of the

Company in exchange for the properties and franchises of McCall Ferry Power Company and the assets remaining in the hands of the Bondholders' Committee, including the unpaid bond subscriptions. The Company also agreed to assume the Committee's obligations under the "Plan and Agreement." The bonds originally issued were to be temporary one year bonds which were to be replaced by 30 year 5% bonds dated January 13, 1910. The directors on January 22, 1910 approved a \$12,500,000 bond issue for the above purpose. On March 3, 1910 the Directors approved the assumption of all contracts entered into by Aldred.

The voting trust called for by the Plan and Agreement was formed on January 27, 1910 with J. E. Aldred, W. M. Barnum and C. E. F. Clarke, Treasurer of the Company, as trustees.

Temporary directors were elected on January 13, 1910 who were replaced on March 3, 1910 by the following persons:

J. E. Aldred	W. M. Canby	S. L. Lewis
R. M. Aitken	A. V. Davis	F. C. McCown, Jr.
Wm. M. Barnum	R. E. Griscom	M. E. Olmsted
A. C. Bedford	H. S. Holt	E. R. Wood
C. E. F. Clarke	G. M. Lane	W. R. Warren

An Executive Committee was also elected on March 3, consisting of the following persons:

J. E. Aldred	A. C. Bedford	W. M. Barnum
C. E. F. Clarke	E. R. Wood	

[22606] (page 29)

Management of Pennsylvania Water & Power Company

In making his proposition to the Bondholder's Committee, for the refinancing of McCall Ferry Power Company, Aldred suggested that, inasmuch as the new interest would be in the minority, an arrangement be made to pool

the shares in the hands of a committee of management, to retain control until the project was completed successfully. The opportunity to share in the management was a privilege which was advantageous to Aldred and his associates in the underwriting, for in order to realize on the stock they would receive under the refinancing, it was necessary that the new company be placed on a profitable operating basis.

Aldred became President of Pennsylvania Water & Power Company upon its inception in January 1910 at a salary of \$10,000 a year. So far as is known no management contract existed requiring Aldred to devote his services to the Company. He was at liberty to resign at any time.

Distribution of Pennsylvania Water & Power Company Securities

A summary of the distribution of the securities of Pennsylvania Water & Power Company is given in the following table:

	Bonds	Stock
Exchanged for \$8,325,000 McCall Company Bonds	\$3,330,000	\$4,995,000
New Subscriptions to Bonds at 90 (with 50% stock bonus)	4,170,000	2,085,000
Special Stock Bonus Issued to Underwriters:		
J. E. Aldred		655,000
Kitcat & Aitken		457,500
E. R. Wood		152,500
H. S. Holt		150,000
	<u>\$7,500,000</u>	<u>\$8,495,000</u>

[22607] (page 30)

Only \$8,259,000 principal amount of McCall Company bonds were deposited for exchange. The \$66,000 of undeposited bonds were purchased for cash by J. E. Aldred, Receiver, prior to January 1, 1910. The \$39,600 of new stock and \$26,400 of new bonds exchangeable therefor were treated as treasury stock and bonds by Pennsylvania Water & Power Company.

Transmission Companies

McCall Ferry Power Company organized separate companies during 1907 and 1908 in each of the Maryland Counties and Pennsylvania Townships through which the transmission line to Baltimore would pass, as follows:

	Incorporated Date	State	Capital Stock Authorized	Issued
Susquehanna Pole Line Company of Baltimore County	6/27/07	Maryland	\$50,000	\$500
Susquehanna Pole Line Company of Harford County	8/13/07	Maryland	50,000	500
Lower Chanceford Township Trans- mission Company	11/18/08	Penna.	5,000	500
Peach Bottom Elec- tric Transmission Company	11/18/08	Penna.	5,000	500

Expenditures totaling \$100,134.91 were made for rights of way by McCall Company prior to the Receivership. These were carried on its books as an advance to Susquehanna Pole Line Co. of Baltimore County.

Merger of Pole Line Companies

The Maryland Pole Line Companies were merged on April 19, 1910 under the laws of the State of Maryland to form Susquehanna Transmission Company of Maryland.

The Pennsylvania companies were merged on April 26, 1910 under the laws of the State of Pennsylvania to form Susquehanna Transmission Company of Pennsylvania. In each case one share of the stock of the new company was given in exchange for two shares of stock of the merged companies.

[22608] (page 31)

Plant Investment

General

This section deals with the Companies' investment in Electric Plant and the adjustments made by the examiners to reduce the amounts recorded on the books to original cost as at December 31, 1945. Schedule 2 summarizes the plant as recorded on the books and as adjusted by the examiners. Schedule 3 shows a summary of Electric Plant in Service as reclassified by the Company in its original cost studies, reconciled with the original cost as determined by the examiners.

A summary of the consolidated Electric Plant Accounts as at December 31, 1945, per books and as adjusted, is given below:

	Per Books	Examiners' Adjustments	As Adjusted
Electric Plant			
In Service	\$ 5,244,832	\$ (3,596)	\$ 5,241,236
In Process of Re- classification	33,339,399	(5,659,897)	27,679,502
Subtotal	38,584,231	(5,663,493)	32,920,738
Construction Work in Progress	237,362		237,362
Held for Future Use	2,196	75,722	77,918
Total	<u>\$38,823,789</u>	<u>\$(5,587,771)</u>	<u>\$33,236,018</u>

The details of construction work in progress at December 31, 1945 are shown on Schedule 4. The details at December 31, 1944 and 1943 are shown on Schedules 5 and 6, respectively. A summary of Plant Held for Future Use, showing the purpose for which it is held, is shown on Schedule 7.

[22609] (page 32)

The examiners' adjusting entries are listed on Schedule 8 with a recapitulation on Schedule 9. Schedules 10 to 27 contain supporting details of the adjustments. A further explanation of the more important adjustments is given in the following paragraphs:

Acquisition of Properties on January 13, 1910
(Entry No. 1—\$4,770,379.07)

The amount of \$11,946,831.77 charged to plant account on the books of Holtwood to record the transfer of properties on January 13, 1910 from the Bondholders' Committee of McCall Ferry Power Company represented the excess of the face and par value of the securities issued to the Committee over the amount recorded on the books for the other net assets acquired. (Schedule 10) The examiners have substituted \$7,472,991.83, being the original cost of the properties, including an allowance for interest during construction.

McCall Ferry Power Company: In determining the original cost of the properties acquired from this company, bond expense and cessation costs have been eliminated so far as could be determined, and the general overheads applicable to the period of suspension of construction from November 1, 1907 to September 1, 1909 have been disallowed as not proper construction costs.

During the period of suspension overheads which could be considered to contribute directly to construction work without duplication, have been allowed. In this category are the expenses [22610] (page 33) of the hydraulic de-

partment (consisting mainly of the salaries of foremen, draftsmen, watchmen, the local office personnel and the hydraulic construction superintendent) who were actually engaged in the limited amount of work done on the tailrace excavation from May to October 1908. Although the period of activity is limited as stated, the examiners have allowed the hydraulic department expenses for the full suspension period in order to provide a liberal allowance for contingencies and delayed items including any repair work on construction equipment, etc.

Taxes paid during the suspension period were largely applicable to the period prior to November 1, 1907 and have been allowed as has the New York Office expense of Sanderson & Porter, apparently representing the time and expenses of draftsmen engaged on drawings of electrical equipment. Legal expenses were probably increased by the Company's financial difficulties but the entire amount has nevertheless been allowed because of the examiners' inability to make any segregation on the basis of the available information. (Schedules 12, 12a) The engineering experts' salaries disallowed include payments made to Hugh L. Cooper and Sanderson & Porter covering the period of suspension. (Schedule 12b) These are discussed below under "Bondholders' Committee."

J. E. Aldred: The entire expense of the receivership period has been allowed with the exception of \$5,000 paid to Cary T. Hutchinson, covering back salary due him during the period of suspension. The expenses prior to September 1, 1909, the date of [22611] (page 34) full resumption of work on the project, have been allowed as an offset against any delayed items at the beginning of the period of suspension. (Schedule 13)

"Bondholders' Committee: The examiners have disallowed the payments made to Hugh L. Cooper, manager of hydraulic construction, and Sanderson & Porter, superintendent of electrical construction, covering the period of

cessation, since they did not complete the work for which they had contracted. Sanderson & Porter's contract called for a flat fee of \$50,000 payable in thirty-eight equal monthly installments from November 1, 1905 to December 1, 1908. Cooper's contract called for a flat fee of \$100,000 payable in twenty-five equal monthly installments beginning November 1, 1905, with a bonus of \$30,000 payable in monthly installments of \$4,000 each beginning January 1, 1908 if the work had reached a specified stage of completion. A fee of \$60,000 was later paid to The Empire Engineering Corporation to complete the hydraulic construction started by Cooper.

Sanderson & Porter had contracted to prepare plans and superintend all electrical construction including transmission lines and substations, none of which had been installed when the work was suspended. The electrical construction and installation was finally supervised by Pennsylvania Water & Power Company employees with the assistance of R. S. Kelsch, consulting engineer.

Since the reorganization effected by the Bondholders' Committee was primarily a matter of refinancing, it is probable [22612] (page 35) that a portion of the reorganization expenses should be treated as a financial expense, but for the purpose of these proceedings the entire amount, not disallowed, has been treated as a capital charge subject to the Commission's review. (Schedule 14)

Property Acquired from Susquehanna Contracting Company: The original cost of the property and riparian rights acquired by the McCall Ferry Power Company from its associated company, Susquehanna Contracting Company, has been determined by an examination of the purchase contracts made by the Contracting Company, which merely acted as a vehicle for the acquisition of the properties and their transfer to the McCall Company. (Schedule 12c)

Cary T. Hutchinson Properties: This acquisition represented, essentially, a transfer by Hutchinson in 1905 of

properties and options held by him individually to the McCall Company, which he and the associated Bankers controlled, by using the Susquehanna Contracting Company as a conduit. The price paid, consisting of \$750,000 cash, in addition to \$4,884,000 par value of common stock and \$400,000 par value of preferred stock of McCall Ferry Power Company, was not the result of arm's-length bargaining and should be disregarded in determining original cost. (Schedule 12c)

Proof of the cost of the properties to Cary T. Hutchinson has not been presented to the examiners who were informed that Hutchinson's records could not be located. In the absence of this information the examiners have allowed the cash consideration of \$750,000 paid to Hutchinson. This amount is ample when the known prices paid by Hutchinson for some of the properties acquired by him are considered.

[22613] (page 36)

Harlow-McGaw Properties and Pullen Options: The examiners have ~~allowed~~ the cash cost of these properties, plus a valuation of 90 for the \$250,000 principal amount of McCall Company bonds given as part consideration; representing the price at which the remainder of the bonds had been subscribed. No cash value has been proven for the 1000 shares of common stock given to Harlow-McGaw and the 150 shares given to Charles Pullen, and none has been allowed. (Schedule 12c) At that time there was no market for the stock and no known sales. None was ever issued for cash. In fact the 1150 shares given in connection with these purchases plus the 48,850 shares issuable to Hutchinson in connection with the acquisition of his properties and the incorporation of McCall Ferry Power Company, comprised the entire authorized common stock.

In April 1905 when these contracts were made, the McCall Company had no tangible assets, and in June 1905 when the purchase prices were paid, it had no source of

revenue except bank interest. Its only assets consisted of the various properties to be secured from Hutchinson and Harlow-McGaw, and the right to receive \$6,400,000 cash for construction purposes from Susquehanna Contracting Company. Construction was not started until October 1905. At the date of execution of the contracts the common stock appeared to represent only a speculative interest in the future profits of the project if built, and if successful in earning a return above the heavy prior charges for bond interest and preferred stock dividends.

[22614½ (page 37)]

There is a complete absence of proof that any cash could have been realized for the stock at the time it was issued—the criterion of cash value under Electric Plant Accounts Instruction 3-D of the Commission's system of accounts. And it is significant that neither the common nor the preferred stock of the McCall Company were allotted any value in the reorganization of the company in 1909.

Sale of River Property Below the Dam: The examiners have reduced the cost of properties and riparian rights acquired through Susquehanna Contracting Company by \$200,000 to reflect the transfer in 1908 by McCall Ferry Power Company of its property and riparian rights on the Susquehanna River below its tailrace to the Susquehanna Power Company interests in exchange for \$703,000 principal amount of General Mortgage 5% Thirty-Year Bonds of Susquehanna Power Company and 1500 shares of capital stock of Susquehanna Properties Company. No entry was made in McCall Company's books of account to record the transfer of the properties.

The securities were sold by Pennsylvania Water & Power Company in March 1912 to Bertron, Griscom & Jenks, for \$200,000 in cash. Susquehanna Power Company at that time was in serious financial difficulties which re-

sulted in an application for receivership for the company in July 1912, and the subsequent public sale of its entire assets on February 24, 1913, by order of the court, to the nominee of the interests holding the general [22615] (page 38) Mortgage bonds and certain creditors. In view of the financial condition of the company at the date of the sale of the securities by the Pennsylvania Water & Power Company, it is considered that their value in 1908, when they were first issued, must have been at least as great, if not greater, but the examiners have only applied the smaller amount in reduction of the cost of the project.

Interest During Construction to December 31, 1910
(Entries Nos. 1 and 2)

Interest has been calculated by the examiners at 6% on the allowed construction costs for the actual construction period from April 14, 1905 to December 31, 1910, exclusive of the period of suspension which lasted from November 1, 1907 to August 31, 1909. An allowance at the same rate has also been made for working capital during the construction period. (Schedules 15 and 16)

Interest during construction is an allowable addition to plant cost only during the period which contributes to the completion of the project through unretarded construction activity, and during the necessary preliminary period prior to the beginning of construction.

The interest rate was determined after a study of the loans outstanding during the construction period, which averaged somewhat less than 6% as shown by the following table:

[22616] (page 39)

	Actual Interest Rate	Largest Amount Outstanding	Annual Interest Charge	Average or Effective*
<i>Period Apr. 1905 to Nov. 1, 1907</i>				
Loans and Advances—				
Payments by Non-deferred Subscribers.	5%	1,526,400	76,320	
Payments by Deferred Subscribers	5%	1,112,400	55,620	
Knickerbocker Trust Co. Loan	6%	3,909,600	234,576	
Knickerbocker Trust Co. Comm.	1½%		22,410	
Total Loans and Advances		6,548,400	388,926	5.94.
McCall Ferry Power Co. 30 year bonds (at 90)	5%	250,000	12,500	5.70*
<i>Period Sept. 1, 1909 to Dec. 31, 1909</i>				
Loans and Advances—				
Loans from Syndicate Participants (Period Oct. 28, 1908 to Oct. 15, 1909)	6%	400,000	24,000	
Payments by P. W. & P. Co. Bond Subscribers (Period July 1, 1909 to Dec. 31, 1909)	5%	1,442,875	72,144	
Total Loans and Advances		1,842,875	96,144	5.22
McCall Ferry Power Co. 30 year bonds (at 90)	5%	8,325,000	No Interest Paid	
<i>Period Jan. 1, 1910 to Dec. 31, 1910</i>				
Penna. Water & Power Co. 30 year bonds (at 90)	5%	7,473,600	373,680	5.70*

In addition to bonds, Pennsylvania Water & Power Company and the Bondholders' Committee had sundry bank loans outstanding during a portion of the year 1910 at 5% interest, but the total interest paid on these loans would have no significant effect on the average cost of money.

The annual interest charge for loans and advances shown on the above table does not represent actual payments but the annual amount computed on the basis of the largest principal amount [22617] (page 40) outstanding during the period. If the calculation is adjusted to reflect the time that each loan was actually outstanding during the period, the weighted average interest rate on loans and advances becomes 5.98% instead of 5.94% for the period to November 1, 1907, and 5.08% instead of 5.22% for the period from September 1, 1909 to December 31, 1909. The rate of 5.7% shown for bonds represents the effective rate for 30 year 5% bonds sold at 90.

The only bonds outstanding prior to November 1, 1907 were the \$250,000 principal amount of bonds given to the Harlow-McGaw interests in part payment for their properties. An additional amount of \$1,895,000 was issued to non-deferred subscribers about February 1, 1908 and the balance, \$6,180,000, was issued after November 1, 1908 as the individual subscribers paid off their loans to Knickerbocker Trust Company. No bond interest was paid by McCall Ferry Power Company after June 15, 1908.

A comparison of the total interest allowed on construction expenditures by the examiners to December 31, 1910 with the total interest paid by Pennsylvania Water & Power Company and predecessor companies for the same period (including interest paid during the period of suspension) is shown below:

Interest allowed by examiners—

Period from April 1905 to Dec. 31, 1909, Schedule 15	\$ 622,150.87
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Period from Jan. 1 to Dec. 31, 1910, Sched- ule 16	479,232.72
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	\$1,101,383.59
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Interest paid during the period from April

1905 to December 31, 1910 (net)—	
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McCall Ferry Power Company—Note (a)	65,271.48
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Susquehanna Contracting Company	728,467.36
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J. E. Aldred, Receiver	(9,627.14)
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Bondholders' Committee	13,807.80
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Pennsylvania Water & Power Company	321,725.93
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	\$1,119,645.43
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Note (a): Exclusive of bond interest paid to Susquehanna Contracting Co.

[22618] (page 41)

*Interest During Construction—Year 1911 (Entry No. 3—
\$6,285.22)*

The first hydro unit went into operation in October 1910. Four more units, on which construction had commenced in 1910, were completed during 1911 after the close of the initial construction period. The examiners have allowed interest during 1911 on the construction cost of the turbines, generators, and gate mechanisms, (including a proportional part of the cost of the switchboard and accessory electrical equipment) until the end of the month in which each unit went into service. Unit costs installed not being available for each turbine and generator with accessory equipment, the average cost of the first five units has been used in this calculation as determined on Schedule

17a. Overheads have been added at the average rate used for this type of equipment by the company in preparing its plant reclassification studies, reduced to reflect the overhead disallowances made by the examiners.

The interest (as recalculated by the examiners) has been substituted for the interest charged to plant on the books during 1911 as shown on Schedule 17. No interest has been allowed during 1911 on the powerhouse and dam structures which are considered to have been in operation as a whole as of January 1, 1911.

Interest During Construction—Years 1912 to 1945, Inclusive

During the years prior to 1930 the company capitalized interest during construction only when major construction projects were under way. Thus interest was capitalized during the years 1912, 1913, and 1914 and 1923, 1924, and 1925, all representing periods during which additional hydro units were added or transmission lines constructed. During the intervening years no interest was capitalized. [22619] (page 42) Beginning with 1930 the Company has consistently capitalized interest at 6% on the larger plant additions although interest rates are now considerably lower. The examiners have allowed the interest actually capitalized on the books during this period.

Capital Stock Taxes (Entry No. 4—\$3,450)

This represents capital stock taxes, and legal expenses in connection therewith, applicable to the period prior to the beginning of operations and are therefore a proper charge to plant account.

Promotion Expenses Disallowed (Entry No. 7—\$30,787.34)

These expenses were accumulated in a separate account which was closed at the end of each year to the plant con-

trol account. The examiners have received no adequate explanation of the nature of the promotion involved. The only information received was to the effect that it may represent, to some extent, expenses in connection with the negotiation of power sale contracts. (Schedule 18)

Abandoned Projects Disallowed (Entry No. 8—\$44,173.17)

This represents the amount expended on preliminary investigations of sundry projects which were later abandoned but not removed from the plant account. (Schedule 19)

Survey of Storage Reservoir Sites: This investigation was made to determine favorable locations for storage reservoirs on the Susquehanna River and its tributaries, above the dam, with secondary consideration being given to their possible use for power development. The Company later abandoned the idea of such a development for itself, but was instrumental in the formation of a Water Conservation Association to work for state assistance in the construction of storage [22620] (page 43) reservoirs. The Association disbanded after legislation which it had supported was defeated.

Lancaster Transmission Line: This represents expenditures made during 1910 and 1911 for the survey and acquisition of right-of-way options for a proposed transmission line to Lancaster to be built by the Company to serve the Edison Electric Company of Lancaster. Contract negotiations were terminated in 1911 and the options allowed to lapse. When a contract was finally signed in October 1912, Edison undertook to build the line itself. Further expenses were incurred by Pennsylvania Water & Power Company in assisting Edison with the construction of the transmission line. These expenses were also charged to plant account and have been disallowed.

Roller Dam Investigation: This represents expenditures made in studies of a proposed roller dam, some fifteen feet high, to be built on the crest of the dam to replace the flashboards previously installed, in order to obtain additional head for the turbines. The project was later abandoned.

Flowage Basin (Entry No. 9—\$296,630.42)

For a considerable number of years after it commenced operations, the Company continued to charge to a Flowage Basin Account, not only the cost of additional properties acquired for the reservoir, but large amounts of engineering salaries and expenses, Lancaster office expenses, legal fees and miscellaneous expenses with in most cases no adequate explanation of the nature of the charges. The examiners' investigation of the entries and such additional information as the Company has given has failed to disclose any reasonable basis for their [22621] (page 44) capitalization in plant account. The examiners on Schedules 20 and 21 and supporting schedules, have made a segregation of those charges believed to be a proper charge to plant account, and have disallowed the remainder.

The items allowed include such charges as could be identified as the cost of road and bridge relocations, the first survey of properties, the clearing of the flowage basin, and the purchase of property (including not only the purchase price but the direct costs associated therewith). The items disallowed are believed to be a proper charge to operations or surplus and are summarized below:

Exhibit No. 51

3501

	Job Order	Year Expended	Amount Disallowed
<i>Period 1910-1924 (Schedule 20)</i>			
Motion pictures and panorama expense		1919-24	\$ 4,098.56
River observations		1911-24	4,988.45
Engineering salaries and expenses		1911-24	45,515.19
Miscellaneous office expenses		1911-23	561.65
Interest		1911-14	3,959.15
Lancaster office expenses, Schedule 20a			
Salary of M. E. Bushong		1916-24	50,423.24
Expenses		1916-24	27,127.82
Sundry legal fees, Schedule 20b		1915-24	36,920.00
Miscellaneous expenses, Schedule 20c		1916-23	14,075.18
Total 1910-1924			<u>\$187,669.24</u>

Period 1925-1936 (Schedule 21)

Lower development studies, Schedule 21a	C-283-8	1925-28	\$ 38,804.95
Survey of railroad property north of Holtwood	C-283-11	1925-26	1,764.59
Philadelphia transmission line link (Project abandoned)	C-325	1925-26	8,396.10
Susquehanna River aerial survey	C-370-3	1925	1,631.31
Philadelphia-Safe Harbor transmission line link (project abandoned)	C-326	1925	153.30

	Job Order	Year Expended	Amount Disallowed
McCall Ferry topographical survey	C-613	1927-28	3,658.24
Lancaster office expenses, Schedule 21b	M-387	1926-30	36,959.06
Flowage Basin, Schedule 21b	M-388	1926-29	11,097.67
Extension of triangulation system	C-791	1929-32	3,338.25
Property ties to triangulation system	C-970	1932-34	3,157.71
Total 1925-1936			<u>\$108,961.18</u>
Grand Total			<u><u>\$296,630.42</u></u>

[22622] (page 45)

Engineers' Salaries and Expenses: The nature of the work performed by the engineers whose salaries and expenses are charged to the flowage basin are not given in the original entries in most cases. No time sheets or other data have been submitted to the examiners to support the items except a general explanation of the nature of the charges prepared during 1945 by Mr. R. L. Bortner, Assistant Secretary of the Company. Mr. Bortner's explanation indicates that the work includes high water observations, back water observations, ice observations, water surface readings, river cross sections, topographic surveys, river flow characteristics, rates of run off, establishment of bench marks, property levels, surveys and investigations necessary for the defense of law suits, and property surveys. The distribution of the total cost between the different types of work is unknown. To the extent that these expenses represent the first survey of properties in connection with their acquisition they would represent a proper charge to

plant account. No segregation of the cost of these surveys has been presented if they are in fact included in the total. The Company's classification of accounts provided a separate sub-account for "Surveying Property", and the amounts so segregated have been allowed by the examiners as a proper charge to plant. The entire amount of unclassified engineers' salaries and expenses has been disallowed because it is properly a charge to operations.

Lancaster Office Expenses: This represents the cost of operating the Lancaster office, including the salary of M. E. Bushong, from the time the office was opened in March 1916 until December 1929, with the exception of the months of April and May 1924 when the [22623] (page 46) expenses were charged to the Lancaster Transmission Line, and the period from June 1924 to December 1925 when they were charged to Holtwood Power Company organization expense. A portion of Mr. Bushong's salary for the years 1926 through 1929 was charged to Property Maintenance and Repairs—Supervision. After 1929 the expense of the Lancaster Office was divided between Pennsylvania Water & Power Company, Safe Harbor Water Power Corporation, various construction job orders, and property maintenance. Since 1933 it appears to have been charged entirely to operating expenses of the two corporations.

The Company claims that the main function of the Lancaster office during the period it was capitalized in the Flowage Basin Account, was to acquire property for the Holtwood development. The examiners' investigation discloses that Mr. Bushong was active in the acquisition of properties on a per diem basis during the years 1912 and 1913, mainly along Conestoga Creek. This work tapered off in 1914 and 1915 and practically ceased with the purchase of the Woelpper property in March 1916. After the opening of the Lancaster office comparatively few properties were acquired. There were no acquisitions at all from April 1916 to July 1920 except for the foreclosure in 1919

of the Benjamin Davis mortgage which had previously been acquired in 1913. Later acquisitions have also been few in number. The examiners have allowed Mr. Bushong's entire expenses and salary during the years 1912 to 1915 during the period of greatest property acquisitions, but have disallowed Lancaster office expenses from March 1916.

[22624] (page 7)

Sundry Expenses Eliminated from the Flowage Basin:

The examiner has disallowed sundry legal fees which were charged to the Flowage Basin without explanation of the nature of the services performed, also expenses in connection with the negotiation of the "Backwater Agreement" with the Susquehanna Power Company (Lower development studies), motion picture and panorama expense, the cost of river observations, and miscellaneous office expenses. These expenses are all believed to be proper charges to operations or surplus since there is no evidence that they were incurred in connection with construction or property acquisitions. The entire amount of interest charged to the Flowage Basin after the beginning of operations, has been disallowed because new acquisitions are immediately in service upon purchase and no interest should be added thereafter.

The miscellaneous expenses disallowed are listed on Schedule 20c. A portion represents expenses in connection with the project for the recovery and marketing of river coal and are all believed to be proper charges to income or surplus.

Several job orders for surveys not in connection with the acquisition of properties, and for the cost of the preliminary investigation for the Philadelphia Transmission Line, subsequently abandoned, have been disallowed, as well as payments to sundry persons which were charged to Job Orders M-387 and M-388 without any explanation of the services performed.

Expense in Connection with Coal Storage Facilities (Entry No. 10—\$1,340.98)

These expenses were incurred in connection with the coal marketing activities of Holtwood Coal Company and should have been [22625] (page 48) charged to that company or to income.

Flashboard Renewal Expense (Entry No. 11—\$44,961.06)

This represents the cost of testing and renewal of flashboards, and the cost of experiments to increase operating efficiency, including the cost of experimental swing gates erected in 1916 and 1917. Flashboards are an expendable item that are so regularly carried away, in whole or in part, by high water that their renewal is treated as an operating expense. The examiners have allowed the entire expense for the years 1911 and 1912 which is deemed to be ample to cover the original construction cost of the flashboard system. (Schedule 22)

Capital Stock Expense (Entry No. 12—\$82,963.12)

This consists of expenses incurred for the issuance and sale of capital stock from 1923 to 1935 long after the organization of the Company and is a proper charge to Capital Stock Expense rather than Organization Expense. (Schedule 23)

Construction Fee Charged to Holtwood Power Company (Entry No. 13—\$50,194.73)

This represents an intercompany profit on construction work performed by Pennsylvania Water & Power Company for its subsidiary and has therefore been eliminated from the plant accounts by the examiners. The steam station construction jobs received a regular proration of the parent company's construction overheads in the same proportion as other jobs.

Holtwood Power Company Organization Expenses (Entry No. 14—\$28,213.34)

The organization expenses of Holtwood Power Company have been allowed as a proper charge to plant because the Company was advised by its counsel that it was necessary to organize the subsidiary [22626] (page 49) in order to obtain the legal right to operate a steam plant. The examiners have eliminated therefrom amounts classified by the Company as "Promotion Expenses," consisting of the entire Lancaster office expense from June 1924 to December 1925, and sundry legal fees in connection with the negotiation of power contracts by Pennsylvania Water & Power Company. (Schedule 24)

Construction Costs Charged to Operations (Entry No. 18—\$76,915.93)

The examiner has added to plant the cost of sundry plant additions, charged in error to operations on the books, which did not represent a replacement of existing facilities. (Schedule 26)

Westport Line Overheads (Entry No. 19—\$26,234.97)

The elimination of overheads on the Westport Line after March 1, 1932 has been made to make the date in service coincide with that for the Safe Harbor Project which the line was built to serve.

Intercompany Profit on the Transfer of Land (Entry No. 20—\$24,151.83)

The book value of land acquired by the Susquehanna Transmission Company of Maryland from The Baltimore Electro Alloys Company has been reduced to cost to the latter company to eliminate the intercompany profit from the plant account. (Schedule 27)

Takoma Substation Engineering (Entry No. 21—\$5,668.48)

This expense was incurred in connection with the Elliott-Washington Line, the lower end of which was constructed for and charged to the Potomac Electric Power Company. The engineering supervision of Potomac's Takoma Substation should also have been charged to Potomac or written off to surplus if uncollectible, rather than to plant account.

[22627] (page 50)

Plant Additions Charged to Depreciation Reserve (Entry No. 23—\$122,488.49)

This item represents the cost of new plant additions charged erroneously to the depreciation reserve, apparently as representing replacements or deferred maintenance, which it was the company's practice to charge to the reserve during the period from 1921 to 1930. The items added back to plant by the examiner represent new plant additions rather than replacements.

Unrecorded Retirements (Entry No. 24—\$343,928.42)

This represents the total cost of plant items retired from service which had not been removed from plant account on the books, as determined by the Company in its plant reclassification studies. The examiner has reduced the total amount by the cost of equipment reinstalled in new locations, the cost of plant items which were replaced by charges to the depreciation reserve under the accounting practices in effect from 1921 to 1930, and by an over-all reduction in the overheads applicable to the retirements due to other disallowances made by the examiners.

*Plant Held for Future Use (Entry No. 26—\$78,343.06)**Other Physical Property (Entry No. 27—\$59,915.65)*

The amounts transferred by the examiners to "Plant Held for Future Use" and "Other Physical Property" represent the amounts as determined by the Company in its

plant reclassification studies. The Land included in the transfer to "Other Physical Property" has been valued by the Company in most cases at a purely nominal value as representing land remnants of little use for agricultural purposes. The Commission has not yet determined the project boundaries.

[22628] (page 51)

Adjustment of Retirements 1937-1945 (Entries Nos. 28 and 29)

These entries adjust retirements and property sales recorded on the books since January 1, 1937 to bring them into agreement with the disposition made of the property by the examiners in previous entries for unrecorded retirements or transfers to "Plant Held for Future Use" or to "Other Physical Property."

JOHN M. NEWLANDS

John M. Newlands

Chief Examiner of Accounts

EDWARD L. DUNN

Edward L. Dunn

Supervising Accountant

Exhibit No. 51

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[22629]

PENNSYLVANIA WATER & POWER COMPANY

Docket IT-5915

PART II

SCHEDULES AND APPENDICES